Inter-City Gas Limited Annual Report 1974

Highlights

	1974	1973	Percent Increase
For the Year			
Revenue	$37,338,504	$32,689,200	14%
Net Income	2,121,467	1,452,226	46%
Per Common Share	.45	.37	22%
Dividend Rate			
Per Common Share	.20	.12	67%
At Year End			
Long Term Debt	21,590,552	21,592,995	—
Shareholders' Equity	17,729,134	12,808,426	38%
Total Assets	62,385,127	48,778,384	28%

Officers

Robert G. Graham, *President*
Wayne R. Harding, C.A., *Executive Vice-President*
C. Roy Beenham, *Senior Vice-President*
E. P. Rimmer, P.Eng., *Vice-President*
G. H. Lucas, *Vice-President*
Barré W. Hall, *Secretary*

Directors

Robert G. Graham, *Winnipeg, Manitoba*
Barré W. Hall, *Winnipeg, Manitoba*
Wayne R. Harding, *Winnipeg, Manitoba*
Gordon P. Osler, *Toronto, Ontario*
E. P. Rimmer, *Winnipeg, Manitoba*
H. C. Rynard, *Toronto, Ontario*
Alan Sweatman, Q.C., *Winnipeg, Manitoba*
Gordon R. Sharwood, *Toronto, Ontario*
James W. McCutcheon, *Toronto, Ontario*

Solicitors

Thompson, Dorfman, Sweatman

Auditors

Coopers & Lybrand

Transfer Agent and Registrar

Canada Permanent Trust Company
Winnipeg, Toronto, Calgary and Vancouver

Head Office

1500 Richardson Building
One Lombard Place, Winnipeg, Manitoba

Report to the Shareholders

I am pleased to report that the operations of your Company during 1974 resulted in earnings per common share of 45¢ compared with 1973 earnings of 37¢ per share. Common share dividends were also increased by 67% during the year to 20¢ per share. This dividend increase while substantial is considered appropriate in view of our history of consistently increasing earnings.

You will recognize that comparative earnings are restated on what is generally described as a normalized income tax accounting basis which has the effect of indicating lower earnings per share than the accounting basis previously used by Inter-City and many similar Canadian corporations. Normalized income tax accounting is the practice of reporting income tax expense in the year that the relevant income is realized regardless of the year in which the income tax liability must actually be paid. The method previously used recorded income tax as an expense in the year that it was paid.

1974 was a year of progress in each of your Company's three major divisions of the energy industry.

Our utility and pipeline division continued to add new domestic customers, and although we feel the general constraints on expansion experienced by all natural gas utilities, our gas supply circumstances should allow continued moderate growth in this division.

Our equipment manufacturing and distribution operations also registered a significant increase in operating profits in 1974.

A major accomplishment during 1974 was the completion of the drilling program and pipeline gathering system in southeastern Alberta, known as the Many Islands gas field.

R. G. GRAHAM
President

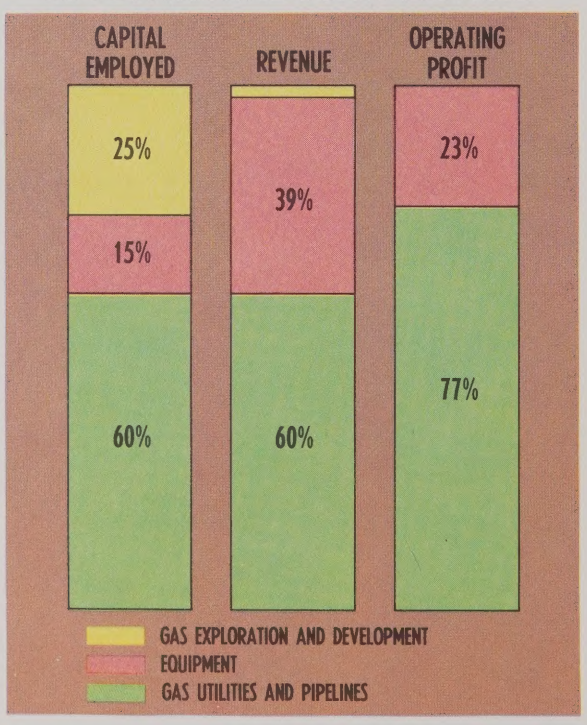
GAS UTILITIES AND PIPELINES

Revenue from gas utility and pipeline operations increased by over $5 million in 1974 resulting in an increase of operating profit to $4,625,000 compared with $3,685,000 in the previous year. The primary factors in this improvement were an 8% increase in the number of utility customers and the conversion of several interruptible commercial gas contracts to higher rate firm commitments.

The substantial increases in our cost of gas from pipeline suppliers throughout our service area during 1974 were recovered through appropriate rate increases with approval of the applicable regulatory agencies.

At present, utility companies in both Canada and the United States are unable to contract for additional major supplies of natural gas and additional maximum daily deliveries are ordinarily required in a program of expansion. However, there are techniques used by gas utility companies, known as peak shaving, which are useful in reducing the maximum daily increases necessary to service new customers. These techniques include injecting substitute gas into the system during temporary periods of peak use and causing specified large volume customers to temporarily substitute an alternate fuel during such periods. The practice of peak shaving may enable a utility to experience substantial sales growth and revenue increase even though maximum daily deliveries from its pipeline suppliers are not increased. To illustrate the effect of such techniques, you will notice in the ten-year review which is included in this report that our contracted maximum daily demand for gas has remained essentially unchanged during the past five years while total annual gas sales have approximately doubled in the same period.

1974 DIVISIONAL CONTRIBUTIONS



The flexibility within our present natural gas contracts plus our peak shaving capacity is such that we may reasonably anticipate a continuation of our current growth pattern for several years provided, of course, that governmental interference in allocation of supplies is maintained at a minimum.

EQUIPMENT

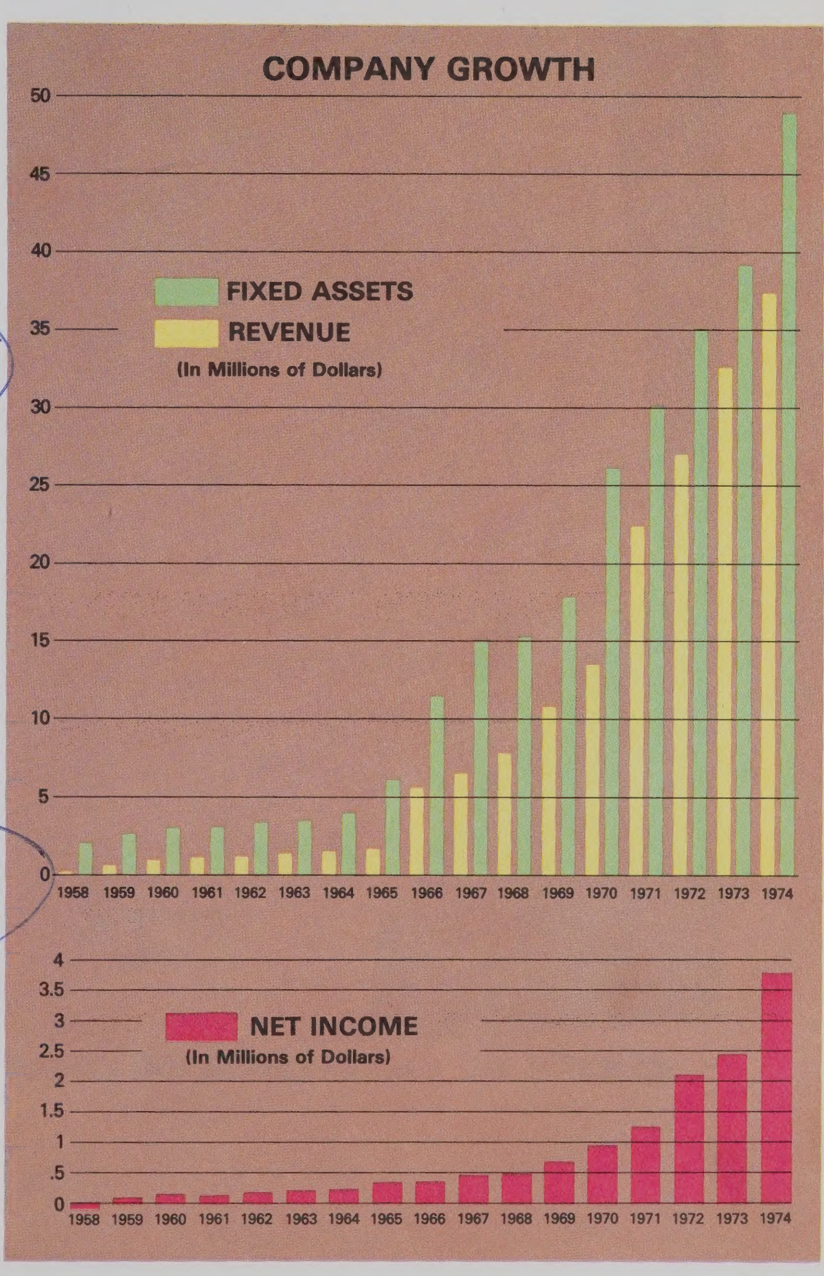
The manufacture and distribution of space heating equipment fueled by natural gas, oil or electricity, continues to be an increasingly profitable area of activity for your Company. In 1974, operating profit from this division was $1,412,000 compared with $881,000 in 1973, an increase of 61%. This improvement was realized on substantially fewer unit sales.

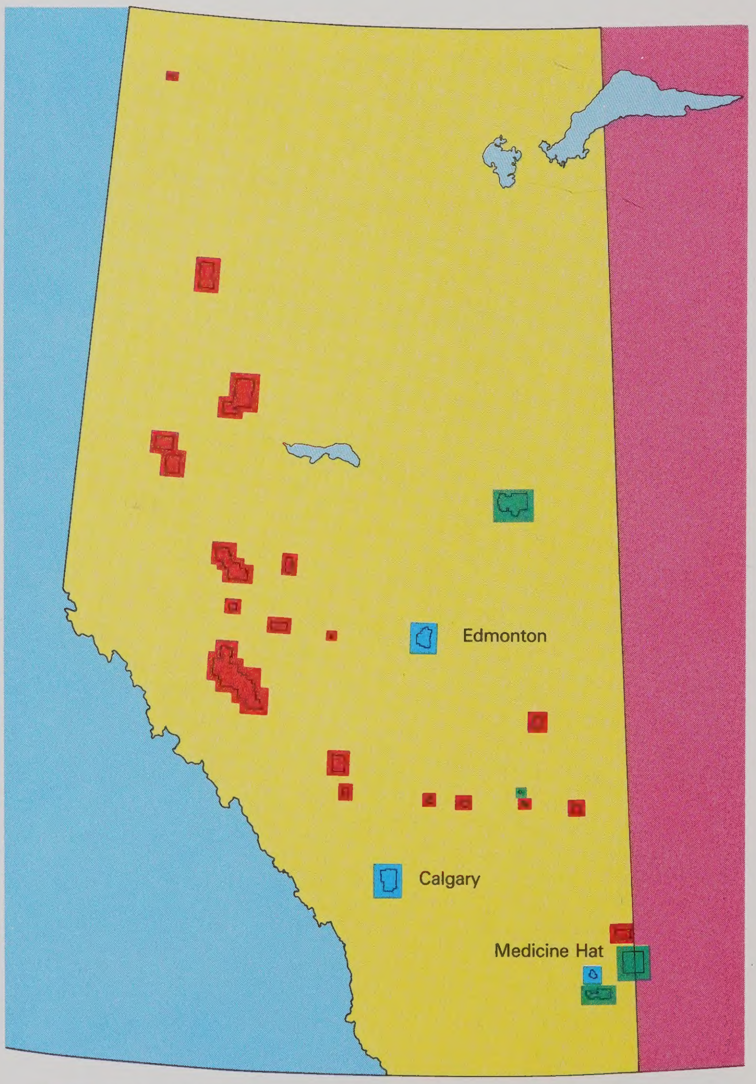
Due to our relatively large size in the domestic heating market, sales were adversely affected by the general downturn in the construction market. During the latter part of 1974 it was our decision however to maintain production near capacity to take advantage of the availability of materials and labour at last year's lower costs. This policy has resulted in our carrying higher than normal inventories into 1975.

During 1974 we estimate we supplied 25% of the gas, 7% of the oil and 31% of the electric furnaces sold in Canada.

GAS EXPLORATION AND DEVELOPMENT

Your Company's major growth activity during the year was natural gas exploration and development primarily in Alberta. During the year Inter-City drilled or caused to be drilled 157 wells of which 8 were exploratory tests.





PRODUCING AREAS   EXPLORATION AND FUTURE DEVELOPMENT

The total amount expended on exploration and development during the year was $7,825,000. Of the 157 wells drilled, 145 are producible gas wells, 1 producible oil well, 4 wells indicating oil and gas and 7 were dry and abandoned.

Expenditures during 1974 were concentrated in the Many Islands gas field in the Medicine Hat region of southeastern Alberta. Development wells, a gathering pipeline system and compression facilities were completed near the end of 1974 and production commenced in January 1975 at a rate of approximately 25 million cubic feet per day.

The extraordinarily high cost of drilling and developing gas and oil in the foothills area of Alberta tends to limit access to these significant areas of potential to major oil companies. In order to participate in exploration of this area, your Company concluded an agreement with Mobil Oil Canada, Limited to participate in the exploration of Mobil's prime acreage. Inter-City syndicated its interest in this agreement and acts as manager of the syndicate. This program is committed to drilling deep well tests wherein the risk of discovery is very high, but commensurate with the returns attainable. To the end of 1974 we have participated in three wells under the program, two of which did not encounter hydrocarbons in commercial quantities and one of which is still under test.

An exploratory well in which Inter-City participated in the Embarras River area of Alberta did not encounter a gas zone in the primary objective; however, a secondary objective in a shallower horizon proved to be a marginally producible oil well and we are participating in further development in this area.

NET GAS AND OIL RESERVES	
Gas (MCF - Thousands of Cubic Feet)	
Proven	119,000,000
Probable	47,000,000
	166,000,000
Oil — proven (Barrels)	21,750
Land (Acres)	145,504
Wells	229

FINANCING

During the year the Company expended a total of $9,597,000 in new plant, property and equipment. In addition to cash flow from operations, funds were provided by the issue of $3,000,000 of 9½% First Mortgage Bonds, and Series B First Preference Shares which added $4,010,640 after providing for the preferred share redemptions which took place during the year. Both the mortgage bonds and the preferred shares were sold privately and entailed nominal financing expense. In addition, a production loan on the Many Islands gas field was negotiated during 1974 and the proceeds were drawn down early in 1975. This loan is for a principal amount of $4,500,000 and provides for repayment over five years. Proceeds of the loan were used to replace the working capital which was used to develop the project during 1974.

MANAGEMENT CHANGES

During 1974, Mr. C. Roy Beenham was appointed to the new position of Senior Vice-President.

R. G. Graham

On behalf of the Board of Directors

Inter-City Gas Limited has a role as an energy provider to

- search for new sources of energy
- transport natural gas to market through pipeline systems
- and to manufacture and supply equipment

to convert nature's abundance to 'all season comfort' for a growing number of Canadian and American consumers.

'all season comfort'

10 Year Review

	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
Year End Customers										
Residential	23,348	21,619	20,340	19,325	17,536	16,410	15,381	14,679	10,977	5,668
Commercial	3,874	3,612	3,387	3,049	2,827	2,671	2,493	2,370	1,730	1,063
Industrial	38	35	41	39	41	38	37	33	30	26
Interruptible	83	151	184	202	197	197	190	191	111	—
Large Contract	33	34	34	29	28	25	25	24	18	9
Total	27,376	25,451	23,986	22,644	20,629	19,341	18,126	17,297	12,866	6,766
Potential Customers										
Facing Mains	47,286	44,870	42,746	42,407	34,880	34,518	34,003	34,819	29,241	12,902
MCF Sales										
Residential	3,583,317	3,154,825	3,501,523	2,774,551	2,741,806	2,405,084	2,295,167	2,030,843	1,506,010	843,864
Commercial	2,953,636	2,328,010	2,493,201	1,907,707	1,829,431	1,524,522	1,387,853	1,285,689	881,912	589,278
Industrial	202,518	130,626	124,476	119,577	120,345	103,227	98,680	94,575	81,890	72,459
Interruptible	714,260	876,203	822,642	726,347	729,106	730,629	659,573	393,774	249,681	—
Special	22,565,469	21,089,020	22,737,772	20,375,487	10,966,489	8,105,189	8,857,280	6,860,361	6,983,967	1,047,478
Total	30,019,200	27,578,684	29,679,614	25,903,669	16,387,177	12,868,651	13,298,553	10,665,242	9,703,460	2,553,079
Degree Day										
Deficiency	10,862	9,140	11,820	10,928	10,394	10,185	9,853	10,920	11,059	11,505
Total Contracted										
Demand-MCF	104,324	104,174	105,563	103,564	101,780	64,117	46,813	41,988	37,903	20,700
Average Use per Customer (Note 1) — MCF										
Residential	162.50	152.63	179.5	155.3	161.3	152.5	158.4	154.1	151.2	171.0
Commercial	804.31	674.39	781.6	660.8	659.3	592.9	487.5	593.3	573.0	638.1
Gas Revenue-$										
Residential	4,845,603	4,060,124	3,981,530	3,460,905	3,203,920	2,838,125	2,532,214	2,311,799	1,714,506	721,848
Commercial	3,203,688	2,241,636	2,213,330	1,772,478	1,634,038	1,408,744	1,268,654	1,123,854	865,011	433,941
Industrial	220,752	112,653	90,025	87,378	93,539	72,095	66,598	66,165	54,879	48,859
Interruptible	528,613	519,633	493,187	439,536	470,595	474,517	422,251	276,339	162,292	—
Large Contract	13,749,675	11,389,926	11,102,160	9,619,690	4,883,052	3,308,234	3,225,848	2,653,590	2,442,494	564,198
Total	22,548,331	18,323,972	17,880,232	15,379,987	10,285,144	8,101,715	7,515,565	6,431,747	5,239,182	1,768,846
Average Revenue Per MCF										
Residential	$1.352	$1.289	$1.137	$1.247	$1.169	$1.180	$1.103	$1.138	$1.138	$ .855
Commercial	1.085	.963	.888	.929	.893	.924	.914	.874	.981	.737
Industrial	1.090	.862	.723	.731	.778	.698	.675	.700	.671	.674
Interruptible	.740	.593	.600	.605	.645	.649	.640	.702	.650	—
Large Contract	.609	.540	.488	.472	.445	.408	.364	.421	.350	.539
Total	.751	.664	.602	.594	.628	.630	.565	.603	.540	.693

Note: 1) Average use per customer is based upon the effective number of customers serviced during the year.

	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
Fixed Assets	$	$	$	$	$	$	$	$	$	$
Utility and Pipelines	38,645,138	33,178,081	31,083,189	28,832,619	25,505,143	17,266,956	15,296,379	15,124,876	11,375,363	6,013,640
Manufacturing	1,099,956	1,036,768	978,149	656,929	598,024	572,938	–	–	–	–
Oil and Gas Properties	9,150,203	5,073,333	3,164,773	623,352	–	–	–	–	–	–
Total	48,895,297	39,288,182	35,226,111	30,112,900	26,103,167	17,839,894	15,296,379	15,124,876	11,375,363	6,013,640
Operating Revenue										
Sale of natural gas	22,548,331	18,323,972	17,880,232	15,379,987	10,323,562	8,134,631	7,547,235	6,459,562	5,539,203	1,768,846
Sale of manufactured goods	14,292,236	14,018,432	9,132,447	6,762,515	2,948,818	2,499,923	–	–	–	–
Other Income	497,937	346,796	183,416	116,792	130,815	94,003	159,348	94,909	149,402	27,160
Total	37,338,504	32,689,200	27,196,095	22,259,294	13,403,195	10,728,557	7,706,583	6,554,471	5,688,605	1,796,006
Operating Expenses										
Natural gas purchased	14,306,956	11,466,800	11,490,628	10,234,118	6,684,504	5,104,157	4,903,122	4,010,281	3,593,767	967,915
Cost of manufactured goods sold	10,693,723	11,118,241	7,488,332	5,707,431	2,541,428	2,013,251	–	–	–	–
Operation & maintenance	4,468,477	3,886,654	3,098,489	2,377,718	1,474,654	1,320,482	848,043	812,035	706,496	197,398
Municipal taxes	915,650	825,962	756,117	628,289	508,993	492,359	453,296	375,799	302,591	64,946
Depreciation	918,825	796,898	667,992	568,364	410,490	371,372	329,770	292,390	290,370	113,003
Total	31,303,631	28,094,555	23,501,558	19,515,920	11,620,069	9,301,621	6,534,231	5,490,505	4,893,224	1,343,262
Operating Profit	6,034,873	4,594,645	3,694,537	2,743,374	1,783,126	1,426,936	1,172,352	1,063,966	795,381	452,744
Interest and Other Deductions										
Interest on funded debt	2,176,171	1,725,004	1,023,372	1,173,872	609,827	434,682	368,582	360,561	283,113	132,334
Other interest	839,154	607,511	635,181	340,977	213,543	294,671	303,101	228,755	148,201	27,898
Amortization of financing expenses	53,495	58,847	55,427	27,814	28,444	23,136	31,493	33,480	28,682	10,029
Interest charged to construction	(819,793)	(254,880)	(120,208)	(41,567)	(9,360)	(13,538)	(17,182)	(19,145)	(16,166)	(52,983)
	2,249,027	2,136,482	1,593,772	1,501,096	842,454	738,951	685,994	603,651	443,830	117,278
	3,785,846	2,458,163	2,100,765	1,242,278	940,672	687,985	486,358	460,315	351,551	335,466
Provision for Income Taxes	1,658,523	1,003,217	547,125	254,438	264,290	98,841	10,986	10,264	7,700	3,632
	2,127,323	1,454,946	1,553,640	987,840	676,382	589,144	475,372	450,051	343,851	331,834
Minority interest	5,856	2,720	10,649	21,830	–	30,273	1,043	1,874	1,388	–
Consolidated Net Income for the Year	2,121,467*	1,452,226*	1,542,991	966,010	676,382	558,871	474,329	448,177	342,463	331,834
Dividends Paid										
Preferred Shares	536,790	352,488	362,399	292,488	220,557	226,394	229,750	229,750	73,500	–
Common Shares	683,179	378,463	247,906	198,427	158,269	124,354	119,330	119,330	119,330	109,387
Earnings per Common Share	$ .45*	$ .37*	$ .43	$ .26	$ .18	$ .13	$ .10	$ .09	$ .11	$ .14

*after providing for deferred income taxes.


British Columbia
Alberta
Saskatchewan
Manitoba
Minneso
Edmonton
Calgary
Vancouver
Victoria
Medicine Hat
Dauphin
Portage
la Prairie
Winnipeg
Steinbach
Thief River
Falls
Grand Rapids
EXPLORATION
& DEVELOPMENT
INTER-CITY GAS TRANSMISSION SYSTEMS
OTHER MAJOR GAS PIPELINES

BRANCH OFFICES
(GAS DISTRIBUTION)

GAS DISTRIBUTION SYSTEMS

BRANCH OFFICES
(EQUIPMENT DISTRIBUTION)

X MANUFACTURING PLANTS

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Inter-City Gas Limited and its subsidiary companies as at December 31, 1974 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the deferred method of income tax allocation as referred to in note 8 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Coopers & Lybrand

CHARTERED ACCOUNTANTS

Winnipeg, Manitoba
March 11, 1975

Consolidated Statement of Income

for the year ended December 31, 1974

	1974 $	1973 $
Operating Revenue		
Sale of natural gas	22,548,331	18,323,972
Sale of manufactured goods	14,292,236	14,018,432
	36,840,567	32,342,404
Operating Expenses		
Natural gas purchased	14,306,956	11,466,800
Cost of manufactured goods sold	10,693,723	11,118,241
Operation and Maintenance (note 10)	4,468,477	3,886,654
Municipal taxes	915,650	825,962
Depreciation and depletion	918,825	796,898
Other income	(497,937)	(346,796)
	30,805,694	27,747,759
Operating Profit	6,034,873	4,594,645
Financial Expenses		
Interest on long-term debt	2,176,171	1,725,004
Other interest	839,154	607,511
Amortization of financial expenses	53,495	58,847
Interest capitalized	(819,793)	(254,880)
	2,249,027	2,136,482
	3,785,846	2,458,163
Provision for Income Taxes (note 8)		
Current	1,017,523	170,919
Deferred	641,000	832,298
	1,658,523	1,003,217
	2,127,323	1,454,946
Minority Interest	5,856	2,720
Consolidated Net Income for the Year	2,121,467	1,452,226
Net Income per Common Share (note 9)	45 cents	37 cents

Consolidated Balance Sheet

as at December 31, 1974

ASSETS	1974 $	1973 $
Current Assets		
Cash	1,118,103	642,712
Accounts Receivable (note 2) —		
Trade & Sundry	7,024,151	6,910,887
Joint Interest	1,000,919	—
Conditional Sales Contracts	234,097	257,296
Income Taxes Recoverable	385,110	389,317
Inventories — at the lower of cost or net realizable value (notes 2 & 3)	6,454,030	3,858,560
Prepaid Expenses & Deposits	346,903	136,933
	16,563,313	12,195,705
INVESTMENTS — at cost		
Advances to the trustees of share purchase plans (note 4)	758,611	503,978
Other	47,524	30,823
	806,135	534,801
FIXED ASSETS (note 5)		
Property, Plant & Equipment — at cost	48,895,297	39,288,182
Accumulated Depreciation & Depletion	5,487,375	4,643,212
	43,407,922	34,644,970
INTANGIBLE ASSETS & DEFERRED CHARGES —		
At Cost, less amortization		
Financing Expenses	926,839	826,396
Natural Gas Market Development	334,124	302,380
Rate Hearings & Other	346,794	274,132
	1,607,757	1,402,908
	62,385,127	48,778,384

Signed on Behalf of the Board

Director

Director

LIABILITIES	1974 $	1973 $
Current Liabilities		
Bank Advances (note 2)	10,142,595	7,819,553
Accounts Payable & Accrued Liabilities	8,050,530	4,111,956
Income Taxes Payable	954,695	147,134
Deferred Income	33,481	28,882
Current Portion of Long-Term Debt	1,788,854	871,285
Customers' Security Deposits	213,841	204,061
	21,183,996	13,182,871
Customers' Contributions in Aid of Construction	279,502	237,205
Long-Term Debt (note 6)	21,590,552	21,592,995
Deferred Income Taxes (note 8)	1,569,298	928,298
Minority Interest in Subsidiary Companies	32,645	28,589
	44,655,993	35,969,958

SHAREHOLDERS' EQUITY

Capital Stock (note 7)

Authorized
- 600,000 cumulative redeemable first preference shares of the par value of $20 each, issuable in series
- 275,748 cumulative redeemable second preference shares of the par value of $20 each, issuable in series
- 10,000,000 common shares of no par value

	1974 $	1973 $
Issued and fully paid		
— 5¼% Series A First Preference Shares	—	1,166,160
— 103,748-6½% Series A Second Preference Shares	2,075,960	2,139,160
— 97,000-7½% Series B Second Preference Shares	1,940,000	2,000,000
— 265,000-8¼% Series B First Preference Shares	5,300,000	—
— 3,415,896 Common Shares	3,805,528	3,796,958
	13,121,488	9,102,278
Retained Earnings	4,607,646	3,706,148
	17,729,134	12,808,426
	62,385,127	48,778,384

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1974

	1974 $	1973 $
Source of Funds:		
Provided from operations	3,722,013	3,210,087
Proceeds from 9½% First Mortgage Bonds	3,000,000	—
Proceeds from 8¼% Series B First Preference Shares	5,300,000	—
Customers' contributions in aid of construction	42,297	23,069
Term bank loan and interim financing	—	6,130,000
Recovery of prior years' income taxes	—	57,359
Proceeds from issue of common shares	8,570	1,429,945
	12,072,880	10,850,460
Use of Funds:		
Purchase of fixed assets — net	1,772,345	2,201,692
Investment in gas and oil properties — net	7,825,130	1,965,449
Increase in investments	278,334	208,596
Redemption of long-term debt	2,995,443	659,157
Dividends paid to shareholders	1,219,969	730,951
Redemption of preference shares	1,289,360	102,060
Purchase of shares of subsidiary companies	24,935	27,939
Financing expenses and other deferred charges	300,881	57,173
Natural gas market development program	—	34,511
	15,706,397	5,987,528
Increase (Decrease) in Working Capital	(3,633,517)	4,862,932
Working Capital Deficiency — Beginning of Year	987,166	5,850,098
Working Capital Deficiency — End of Year	4,620,683	987,166
Working Capital Deficiency is Represented by:-		
Current liabilities	21,183,996	13,182,871
Current assets	16,563,313	12,195,705
	4,620,683	987,166

Consolidated Statement of Retained Earnings

for the year ended December 31, 1974

	1974 $	1973 $
Balance — Beginning of Year	3,706,148	3,247,686
Adjustment of prior years' income taxes —		
— deferred	—	(96,000)
— current	—	57,359
Excess of cost of investment in shares of subsidiary companies over book value written off (note 1)	—	(224,172)
Consolidated net income for the year	2,121,467	1,452,226
	5,827,615	4,437,099
Dividends paid —		
5¼% Series A First Preference Shares	30,612	63,117
6½% Series A Second Preference Shares	137,544	139,371
7½% Series B Second Preference Shares	150,000	150,000
8¼% Series B First Preference Shares	218,634	—
Common shares	683,179	378,463
	1,219,969	730,951
Balance — End of Year	4,607,646	3,706,148

Notes to Consolidated Financial Statements

for the year ended December 31, 1974

1. ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the assets, liabilities and operating results of all subsidiary companies. The accounts of subsidiary companies are consolidated from the dates of acquisition on the basis of purchase accounting. The excess of cost of investment in shares of subsidiary companies over book value to December 31, 1973, has been written off to retained earnings. Effective January 1, 1974, any excess cost over fair market value of the assets acquired (goodwill) will be treated as goodwill and amortized.

Foreign Exchange

The accounts of subsidiaries and divisions operating in the United States are translated in Canadian dollars at the rates of exchange on the balance sheet date for current assets and liabilities, on the date of the transaction for other balance sheet accounts and at the average rate for the year for revenues and expenses.

Fixed Assets

Property, plant and equipment is stated at cost. The cost of gas utility transmission and distribution systems includes interest and overhead amounts capitalized during the construction period. All costs related to the acquisition of, exploration for, and development of gas and oil properties, including interest, are capitalized on the basis of full cost accounting.

Depreciation and Amortization

Depreciation of fixed assets other than oil and gas properties is provided on the straight-line method at rates varying between 1.7% and 30.0% based on the estimated useful life of those assets. Amortization of financing expenses and other deferred charges is provided on the straight-line method over periods of ten and twenty years.

Income Taxes

The Public Utilities Board of Manitoba has directed certain subsidiary companies to provide only those income taxes currently payable in its financial statements and in calculating its rate of return for rate making purposes. The company considers it is appropriate to follow the same policy for its other utility and gas pipeline operations. However, for all other operating divisions, the company, in accordance with the recommendations of the Canadian Institute of Chartered Accountants, provides for deferred income taxes on all timing differences between accounting income and taxable income, including those relating to exploration, development and acquisition of gas and oil properties.

2. SECURITY FOR BANK LOANS

Current bank loans are generally secured by assignment of accounts receivable and the pledge of inventories. Term loans are secured by the pledge of shares in certain subsidiary companies, an assignment of the company's interest in various agreements and a collateral demand debenture in the amount of $3,500,000 securing a floating charge on the non-utility subsidiary companies' assets.

3. INVENTORIES

Investories are classified as follows:-

	1974 $	1973 $
Raw materials	1,451,971	759,381
Work in process	513,407	471,866
Finishes goods	3,942,868	2,199,239
Materials and supplies	545,784	428,074
	6,454,030	3,858,560

4. EMPLOYEE SHARE PURCHASE PLAN

Under the terms of employee share purchase plans, the trustees of the plans purchased 56,595 common shares from advances made to them in the amount of $275,891. The balance due from the trustees at December 31, 1974 amounted to $758,611 (1973 – $503,978).

5. FIXED ASSETS

Property, plant and equipment is classified as follows:-

	Cost $	Accumulated Depreciation and Depletion $	1974 $	1973 $
Utility transmission and distribution systems	33,782,954	4,663,519	29,119,435	27,913,292
Gas and oil properties	9,150,203	147,458	9,002,745	5,000,875
Land and building	552,947	157,457	395,490	573,093
Machinery, equipment and furniture	653,072	362,204	290,868	241,311
Well equipment and gathering systems	4,756,121	156,737	4,599,384	916,399
	48,895,297	5,487,375	43,407,922	34,644,970

6. LONG-TERM DEBT

The details of long-term debt of the company and its consolidated subsidiary companies are as follows:-

	1974		1973	
	Current $	Long-term $	Current $	Long-term $
Inter-City Gas Limited				
Term bank loan bearing interest at 1% above bank's prime rate repayable in monthly instalments of $5,000 commencing January, 1975 with final balance due February, 1980	55,000	545,000*	—	600,000*
Term bank loan bearing interest at 1% above bank's prime rate repayable in semi-annual instalments of $100,000 due March, 1975	100,000	—	200,000	100,000
7% Debentures - Series B maturing 1982	68,000	1,000,000	74,000	1,075,000
8% First Mortgage Bonds — Series A maturing 1989	100,000	3,550,000*	100,000	3,650,000*
9½% First Mortgage Bonds — Series B maturing 1994	100,000	1,900,000*	—	—
9½% First Mortgage Bonds — Series C maturing 1994	50,000	950,000	—	—
Interim financing	—	—	—	1,200,000*
Inter-City Gas Utilities Ltd.				
6% First Mortgage Bonds — Series A maturing 1977	37,500	75,000	37,500	112,500
6% First Mortgage Bonds — Series B maturing 1982	25,000	275,000	25,000	300,000
6% First Mortgage Bonds — Series C maturing 1985	57,000	1,644,000	57,000	1,701,000
7% Debentures — Series A maturing 1979	9,500	375,000	—	405,000
Inter-City Pipelines Ltd.				
Term bank loan bearing interest at 1% above bank's prime rate repayable in semi-annual instalments of $185,000 due November, 1980	370,000	1,860,000	370,000	2,230,000

LONG-TERM DEBT — continued on next page

LONG-TERM DEBT — continued	1974 Current $	1974 Long-term $	1973 Current $	1973 Long-term $
Inter-City Minnesota Pipelines Ltd. and ICG Transmission Limited				
9½% Joint and Several Promissory Note due January, 1991 repayable in annual instalments of $265,000 commencing January, 1975, secured by 8% Joint and Several First Mortgage Bonds maturing January, 1991	265,000	4,235,000*	—	4,500,000*
Minell Pipeline Ltd.				
Term bank loan bearing interest at 3% above bank's prime rate repayable in monthly instalments of $5,833 commencing March, 1975 with final balance due March, 1980	58,334	641,666*	—	700,000*
Inter-City Manufacturing Ltd.				
Term bank loan bearing interest at 1% above bank's prime rate repayable in semi-annual instalments of $120,000 commencing May, 1975, final balance due November, 1980	240,000	1,760,000	—	2,000,000
Term bank loan bearing interest at 0.37% above bank's prime rate repayable by monthly instalments of $22,500 commencing February, 1975, final balance due February, 1980	247,500	2,452,500*	—	2,700,000*
*Premium on U. S. Funds	6,020	327,386	7,785	319,495
	1,788,854	21,590,552	871,285	21,592,995

Under the provisions of the various indentures the company is required to make the following sinking fund instalments and term bank loan repayments during the next five years:-

Year	$
1975	1,788,854
1976	1,799,500
1977	1,824,500
1978	1,822,000
1979	2,097,000
	9,331,854

7. CAPITAL STOCK

(a) By supplementary letters patent dated May 8, 1974 the authorized capital stock of the company was increased by the creation of an additional 520,000 first preference shares with a par value of $20 each and also by the creation of an additional 5,000,000 common shares of no par value ranking in all respects on a parity with the existing shares of no par value, whether issued or unissued.

(b) During the year, 265,000 8¼% Series B first preferred shares were issued for a consideration of $5,300,000 and 58,308 5¼% Series A first preference shares were redeemed for $1,166,160. The net cash proceeds to the company on these transactions amounted to $4,133,840.

(c) During the year a total of 5,200 common shares were issued for a consideration of $8,570 of which $4,250 (2,000 shares) was received on the exercise of share purchase warrants, $4,320 (3,200 shares) was received on the exercise of employee stock options.

(d) The company has reserved 600,000 common shares on the exercise of share purchase warrants at $3.00 per share up to July 31, 1976 and $3.50 per share up to July 31, 1981.

(e) The company is required by its letters patent to purchase annually in the market within certain limits 3% of the outstanding 6½% Series A second preference shares of which 3,210 were purchased and cancelled during 1974 and 3% of the outstanding 7½% Series B second preference shares of which 3,000 were purchased and cancelled in 1974. Effective May, 1977, the company is required to purchase annually 5% of the outstanding 8¼% Series B first preference shares.

8. DEFERRED INCOME TAXES

As explained in Note 1, the company does not follow the tax allocation basis for its gas utility and pipeline operations. However, during the year ended December 31, 1974 the company adopted the tax allocation basis of accounting for income taxes recommended by the Canadian Institute of Chartered Accountants with respect to exploration, development and acquisition costs of gas and oil properties. This accounting change, which has been made retroactively for comparative purposes, had the effect of decreasing consolidated net income for 1974 by approximately $641,000.

If deferred tax allocation had been followed in respect of all timing differences including those relating to the gas utility and pipeline operations, the provision for deferred income taxes would have increased and consolidated net income would have decreased by $334,600 (1973 — $348,900). At December 31, 1974, these accumulated tax reductions resulting from timing differences in the natural gas utility and pipeline operations amounted to approximately $2,906,400 (1973 - $2,571,800).

9. NET INCOME PER COMMON SHARE

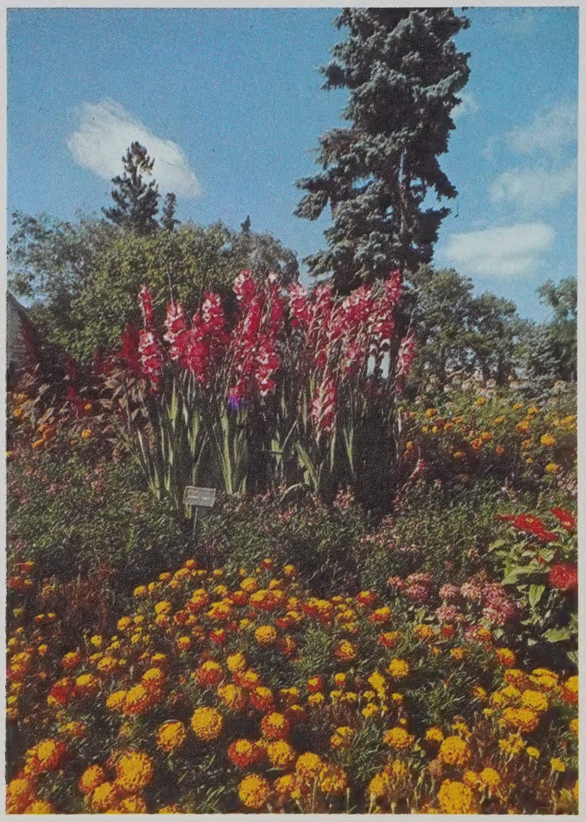
The income per common share is calculated on a weighted average number of shares outstanding during the respective years. Based on the assumption that the share warrants for 600,000 common shares had been exercised on January 1, 1974 and the proceeds received therefrom earned a rate of return equivalent to that earned on the book value of the common shareholders' equity in 1974 there will be no dilution of the 1974 net income per share. The amount of inputed income was $330,000.

10. SUPPLEMENTARY INFORMATION

	1974 $	1973 $
(a) Included in other income are the following amounts:-		
Income from investments	42,871	8,742
Discount on shares and debentures purchased for cancellation	29,932	9,667
(b) Included in operating and maintenance expense are the following amounts:-		
Amortization — natural gas market development	38,683	31,693
— rate hearings and other	28,721	31,578
(c) The aggregate remuneration paid to directors and senior officers of the company in their capacity as director, officer or employee	279,400	197,250

11. COMMITMENTS

Under the terms of the agreement dated November 9, 1970, whereby the company purchased 51% of the outstanding shares of Furnasman Supply Ltd., it is committed to purchase the remaining 49% on April 30, 1975 for a consideration of approximately $260,000.



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